

DURAND AREA SCHOOLS

DURAND, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2008

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Lewis & Knopf, CPA's, PC

Serving You with Trust and Integrity

September 8, 2008

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Durand Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Durand Area Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools as of June 30, 2008, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated September 8, 2008 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis information on pages II - VIII, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Durand Area Schools' basic financial statements. The additional information presented on pages 20 - 38, is presented for purpose of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf PC
LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Durand Area Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

District Wide Financial Statements: (Continued)

These two statements report the Durand Area Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2008 and 2007:

	<u>NET ASSETS SUMMARY</u>	
	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets	\$14,742,274	\$18,475,999
Non-Current Assets	<u>19,620,738</u>	<u>14,396,436</u>
<u>TOTAL ASSETS</u>	<u>\$34,363,012</u>	<u>\$32,872,435</u>
<u>LIABILITIES</u>		
Current Liabilities	\$7,827,042	\$6,600,806
Long-Term Liabilities	<u>22,899,038</u>	<u>23,649,708</u>
Total Liabilities	<u>\$30,726,080</u>	<u>\$30,250,514</u>
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	1,868,243	1,184,740
Restricted - Debt Service	874,712	968,474
Restricted - Capital Projects	412,747	417,706
Unrestricted	<u>481,230</u>	<u>51,001</u>
Total Net Assets	<u>\$3,636,932</u>	<u>\$2,621,921</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$34,363,012</u>	<u>\$32,872,435</u>

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2008 and 2007, the District wide results of operations were:

	<u>2008</u>	<u>2007</u>
REVENUES		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$1,095,667	\$978,436
Property Taxes Levied for Debt Service	1,530,833	1,434,501
Property Taxes Levied for Capital Projects	1,072	175,910
State of Michigan Unrestricted Foundation Aid	12,506,423	12,246,883
Other General Revenues	<u>203,534</u>	<u>738,027</u>
Total General Revenues	\$15,337,529	\$15,573,757
<u>Operating Grants:</u>		
Federal	695,491	929,220
State of Michigan	421,638	484,784
Other Operating Grants	<u>235,042</u>	<u>114,831</u>
Total Operating Grants	\$1,352,171	\$1,528,835
<u>Charges for Services:</u>		
Food Service	277,688	281,828
Athletics	66,481	92,534
Other Charges for Services	<u>422,242</u>	<u>370,914</u>
Total Charges for Services	\$766,411	\$745,276
Total Revenues	\$17,456,111	\$17,847,868
 EXPENSES		
Instruction & Instructional Support	9,638,752	9,185,901
Support Services	4,258,370	4,574,660
Community Services	120,373	139,266
Food Service	624,409	593,338
Athletics	357,014	355,038
Bond Issuance Costs	0	3,800
Interest on Long-Term Debt	1,026,601	1,054,132
Depreciation	<u>415,581</u>	<u>417,382</u>
Total Expenses	\$16,441,100	\$16,323,517
 INCREASE IN NET ASSETS	\$1,015,011	\$1,524,351
 BEGINNING NET ASSETS	<u>2,621,921</u>	<u>1,097,570</u>
 <u>ENDING NET ASSETS</u>	<u>\$3,636,932</u>	<u>\$2,621,921</u>

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2008, the District's Total Net Assets increased by \$1,015,011 to a total of \$3,636,932. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$683,503 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The District's Unrestricted Net Assets increased by \$430,229 during the year and the restricted portion of the net assets decreased by \$98,721. The restricted Net Assets consists of restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall revenues exceeded its expenses for the year by \$1,015,011. The total revenues decreased by \$391,757 or 2% over last years amounts. The major changes were decreases in investment earnings and federal grants. Expenditures increased by \$117,583 or less than 1% over last year. Major changes were increases in staffing and fuel costs.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund increased by \$305,400 during the year with the increase coming primarily from an increase in cash. Revenues for the year increased by \$228,730 primarily due increases in state aid and property taxes. Expenditures and other financing uses increased by \$418,458, primarily due to increases in personnel and energy cost. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Durand Area Schools foundation allowance was \$7,204 per student for the 2007-2008 school year.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for the fall count of 2007-2008 was 1,888 students. An increase of 44 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 16.5816 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2007-2008 fiscal year was \$1,100,452. An increase of \$122,016 from the prior year.

2006 Capital Projects Fund

The District's Capital projects fund balance decreased by \$5,170,799 as the District continues a construction project. Investment earnings are the primary source of revenue in the fund. Expenditures, which are restricted for ongoing construction projects amounted to \$5,596,908 for the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual & Original Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$14,762,582	\$15,244,251	\$15,187,656	3.26	0.37
Expenditures	14,761,054	15,243,812	14,882,256	3.27	2.37
<u>TOTAL</u>	<u>\$1,528</u>	<u>\$439</u>	<u>\$305,400</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Durand Area Schools amends its budget quarterly during the school year. The June, 2008 budget amendment was the final budget for the fiscal year.

There were no significant variations between the original and final budget for revenues. The variations between the original and final budgets for expenditures varied due to the anticipated increase in energy costs.

There were no significant variations between final budgets and actual results for both revenues and expenditures.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-07	Increases (Decreases) 6-30-08	Principal Payments 6-30-08	Principal Balance 6-30-08
Energy & Durant Bonds	\$159,559	\$0	\$0	\$159,559
Building & Site Bonds	23,705,000	0	630,000	23,075,000
Severance Payable	250,000	0	125,000	125,000
Sick & Vacation Pay Payable	300,149	29,369	0	329,518
<u>Total Long-Term Bond Obligations</u>	<u>\$24,414,708</u>	<u>\$29,369</u>	<u>\$755,000</u>	<u>\$23,689,077</u>

B. Capital Assets

The district's net investment in capital assets decreased by \$372,606 during the fiscal year. This can be summarized as follows:

	Balance 7-1-07	Additions	Deductions	Balance 6-30-08
Capital Assets	\$23,208,560	\$148,908	\$112,356	\$23,245,112
Less: Accumulated Depreciation	(11,628,537)	(521,514)	(112,356)	(12,037,695)
<u>Net Investment Capital Outlay</u>	<u>\$11,580,023</u>	<u>(\$372,606)</u>	<u>\$0</u>	<u>\$11,207,417</u>

Significant additions were the purchase of 2 buses.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,150 per pupil for the 08-09 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan and the gubernatorial election will all affect this estimate before the final foundation allowance is known.

* Retirement Rates

The continuing cost of health insurance to current and potential retirees continues to drive the rate increases the Michigan School Personnel Retirement System recommends to the legislature for approval. The retirement rate is anticipated to decrease to 16.54% in 2008-2009 from 16.72% in 07-08.

* The Durand Area Schools 2008/2009 adopted budget is as follows:

REVENUE	\$15,266,655
EXPENDITURES	<u>15,375,095</u>
<u>NET (UNDER) BUDGET</u>	<u><u>(\$108,440)</u></u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Durand Area Schools.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$5,448,047
Investments	6,713,187
Accounts Receivable	19,845
Due from Other Governmental Units	2,551,367
Inventory	9,828
Total Current Assets	<u>\$14,742,274</u>
<u>NON-CURRENT ASSETS</u>	
Construction in Progress	8,413,321
Capital Assets	23,245,112
Less: Accumulated Depreciation	<u>(12,037,695)</u>
Total Noncurrent Assets	<u>\$19,620,738</u>
<u>TOTAL ASSETS</u>	<u>\$34,363,012</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$1,795,084
State Aid Note Payable	4,000,000
Salaries Payable	1,073,242
Accrued Expenses	168,677
Current Portion of Long-Term Obligations	790,039
Total Current Liabilities	<u>\$7,827,042</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>22,899,038</u>
<u>TOTAL LIABILITIES</u>	<u>\$30,726,080</u>
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	1,868,243
Restricted for:	
Debt Service	874,712
Capital Projects	412,747
Unrestricted	<u>481,230</u>
<u>TOTAL NET ASSETS</u>	<u>\$3,636,932</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$34,363,012</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue & Change in Net Assets
		Charges For Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$9,638,752	\$0	\$799,161	(\$8,839,591)
Support Services	4,258,370	296,723	253,991	(3,707,656)
Community Services	120,373	125,519	0	5,146
Food Service	624,409	277,688	299,019	(47,702)
Athletics	357,014	66,481	0	(290,533)
Interest on Long-Term Obligations	1,026,601	0	0	(1,026,601)
Depreciation - Unallocated	415,581	0	0	(415,581)
<u>TOTALS</u>	<u>\$16,441,100</u>	<u>\$766,411</u>	<u>\$1,352,171</u>	<u>(\$14,322,518)</u>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

2,627,572

State Aid

12,506,423

Investment Earnings

159,428

Miscellaneous

44,106

Total General Revenues and Transfers

\$15,337,529

Change in Net Assets

\$1,015,011

Net Assets - Beginning

2,621,921

Net Assets - Ending

\$3,636,932

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008

	General Fund	2006 Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$4,043,258	\$46,363	\$1,358,426	\$5,448,047
Investments	0	6,713,187	0	6,713,187
Accounts Receivable	19,845	0	0	19,845
Due from Other Governmental Units	2,547,117	0	4,250	2,551,367
Inventory	0	0	9,828	9,828
<u>TOTAL ASSETS</u>	<u>\$6,610,220</u>	<u>\$6,759,550</u>	<u>\$1,372,504</u>	<u>\$14,742,274</u>
<u>LIABILITIES</u>				
Accounts Payable	\$514,660	\$1,277,486	\$2,938	\$1,795,084
State Aid Anticipation Note Payable	4,000,000	0	0	4,000,000
Salaries Payable	1,073,242	0	0	1,073,242
Total Liabilities	\$5,587,902	\$1,277,486	\$2,938	\$6,868,326
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	0	0	9,828	9,828
Debt Retirement	0	0	874,712	874,712
Capital Projects	0	5,482,064	412,747	5,894,811
Unreserved:				
Designations	150,000	0	0	150,000
Undesignated, Reported In:				
General Fund	872,318	0	0	872,318
School Service Funds	0	0	72,279	72,279
Total Fund Balances	\$1,022,318	\$5,482,064	\$1,369,566	\$7,873,948
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$6,610,220</u>	<u>\$6,759,550</u>	<u>\$1,372,504</u>	<u>\$14,742,274</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2008

Total Governmental Fund Balances:		\$7,873,948
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$23,245,112 and the accumulated depreciation is \$12,037,695		11,207,417
Construction in Progress		8,413,321
Accrued Interest on Long-Term Debt		(168,677)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$23,234,559	
Severance Payable	125,000	
Sick Pay Payable	329,518	
Total Long-Term Liabilities		<u>(23,689,077)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$3,636,932</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	2006 Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Local Sources	\$1,591,397	\$46,163	\$1,923,273	\$3,560,833
State Sources	12,901,544	0	26,517	12,928,061
Federal Sources	431,063	0	272,502	703,565
Total Revenues	<u>\$14,924,004</u>	<u>\$46,163</u>	<u>\$2,222,292</u>	<u>\$17,192,459</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	9,763,752	0	0	9,763,752
Student Services	269,647	0	0	269,647
Instructional Support	143,616	0	0	143,616
General Administration	320,244	0	0	320,244
School Administration	1,262,508	0	0	1,262,508
Business Administration	461,849	0	0	461,849
Operation & Maintenance of Plant	1,243,725	0	0	1,243,725
Transportation	688,792	0	0	688,792
Other Support Services	154,061	0	0	154,061
Community Services	120,373	0	0	120,373
Food Service	0	0	962,814	962,814
Debt Service	0	0	1,659,975	1,659,975
Capital Outlay				
Building Improvements	0	4,245,034	12,400	4,257,434
Equipment	0	365,816	0	365,816
Purchased Services	0	877,767	0	877,767
Arbitrage Expense	0	108,291	0	108,291
Total Expenditures	<u>\$14,428,567</u>	<u>\$5,596,908</u>	<u>\$2,635,189</u>	<u>\$22,660,664</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	\$495,437	(\$5,550,745)	(\$412,897)	(\$5,468,205)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to (from) Other Funds	(340,000)	0	340,000	0
Other Transfers	149,963	379,946	0	529,909
Total Other Financing Sources (Uses)	<u>(\$190,037)</u>	<u>\$379,946</u>	<u>\$340,000</u>	<u>\$529,909</u>
Net Change in Fund Balance	\$305,400	(\$5,170,799)	(\$72,897)	(\$4,938,296)
<u>FUND BALANCE - BEGINNING</u>	<u>716,918</u>	<u>10,652,863</u>	<u>1,442,463</u>	<u>12,812,244</u>
<u>FUND BALANCE - ENDING</u>	<u>\$1,022,318</u>	<u>\$5,482,064</u>	<u>\$1,369,566</u>	<u>\$7,873,948</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Total net change in fund balances - governmental funds	(\$4,938,296)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(372,606)
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Construction in Progress	5,596,908
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Decrease in Severance Package	125,000
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	630,000
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Change in accrued interest on long-term liabilities	3,374
---	-------

(Increase) in accrued compensated absences	<u>(29,369)</u>
--	-----------------

<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>\$1,015,011</u></u>
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DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2008

	<u>Trust & Agency</u>	<u>Private Purpose Trusts</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$83,743	\$146,424	\$230,167
<u>LIABILITIES</u>			
Due to Student Groups	<u>83,743</u>	<u>0</u>	<u>83,743</u>
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$146,424</u>	<u>\$146,424</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Private Purpose Trusts</u>
<u>REVENUE</u>	
Interest	\$774
Donations	6,000
Total Revenue	<u>\$6,774</u>
<u>EXPENDITURES</u>	
Scholarships	9,959
Membership Fees	20
Total Expenditures	<u>\$9,979</u>
<u>CHANGE IN NET ASSETS</u>	(\$3,205)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>149,629</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$146,424</u></u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$1,392,496	\$1,521,814	\$1,591,397	\$69,583
State Sources	12,733,175	12,933,105	12,901,544	(31,561)
Federal Sources	536,911	546,242	431,063	(115,179)
Total Revenues	<u>\$14,662,582</u>	<u>\$15,001,161</u>	<u>\$14,924,004</u>	<u>(\$77,157)</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	9,510,573	10,031,444	9,763,752	267,692
Student Services	312,130	271,113	269,647	1,466
Instructional Support	93,715	150,144	143,616	6,528
General Administration	280,763	325,433	320,244	5,189
School Administration	1,265,110	1,262,711	1,262,508	203
Business Administration	454,591	466,681	461,849	4,832
Operation & Maintenance of Plant	1,329,821	1,276,288	1,243,725	32,563
Transportation	753,252	695,173	688,792	6,381
Other Support Services	198,049	169,041	154,061	14,980
Community Services	108,050	125,784	120,373	5,411
Total Expenditures	<u>\$14,306,054</u>	<u>\$14,773,812</u>	<u>\$14,428,567</u>	<u>\$345,245</u>
Excess of Revenues Over Expenditures	<u>\$356,528</u>	<u>\$227,349</u>	<u>\$495,437</u>	<u>\$268,088</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(355,000)</u>	<u>(226,910)</u>	<u>(190,037)</u>	<u>36,873</u>
Net Change in Fund Balance	<u>\$1,528</u>	<u>\$439</u>	<u>\$305,400</u>	<u>\$304,961</u>
<u>FUND BALANCE - BEGINNING</u>			<u>716,918</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$1,022,318</u>	

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Durand Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Sinking Fund

The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan. Voters in the School District authorized $\frac{3}{4}$ mill on March 11, 1997 for ten years to be used for school facility improvement.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I) COMPENSATED ABSENCES (Continued)

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2008, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Credit Quality Rating	Portfolio %
MILAF - Agency Notes and Bonds	\$2,489,361	0.1065	AAAm	37.08%
MILAF External Investment Pool - MICMS	56	0.0027	AAAm	0.00%
MILAF External Investment Pool - MIMAX	4,223,770	0.0027	AAAm	62.92%
Total fair value	<u>\$6,713,187</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0412</u>		

1 day maturity equals 0.0027, one year equals 1.00.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

4) DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2008, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$4,887,477 of the District's bank balance of \$6,037,122 as exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$230,167	\$ 5,678,214
Investments	<u>6,713,187</u>
<u>TOTAL</u>	<u>\$ 12,391,401</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 83,743
Cash Private Purpose Trusts	146,424
Cash – District Wide	5,448,047
Investments – District Wide	<u>6,713,187</u>
<u>TOTAL</u>	<u>\$ 12,391,401</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2008, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 2,345,269
Other	206,098
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 2,551,367</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the employment commission for all benefits charged against the District for the year. For the year ended June 30, 2008, the District's unemployment costs were \$11,837.

8) SHORT-TERM DEBT

The District borrowed \$4,000,000 at 3.68% interest per annum on August 20, 2007, from Chase Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The balance as of June 30, 2008 was \$4,000,000. The note matures on August 20, 2008.

	<u>BALANCE</u> <u>JULY 1, 2007</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2008</u>
State Aid Note	<u>\$3,500,000</u>	<u>\$4,000,000</u>	<u>\$3,500,000</u>	<u>\$4,000,000</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	BALANCE JULY 1, 2007	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2008
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$19,892,962	\$0	\$0	\$19,892,962
Land	115,788	0	0	115,788
Equipment and Furniture	1,717,776	0	0	1,717,776
Vehicles	1,482,034	148,908	112,356	1,518,586
Totals at Historical Cost	\$23,208,560	\$148,908	\$112,356	\$23,245,112
Less: Accumulated Depreciation				
Buildings and Improvements	(9,086,279)	(408,356)	0	(9,494,635)
Equipment and Furniture	(1,477,971)	(36,211)	0	(1,514,182)
Vehicles	(1,064,287)	(76,947)	(112,356)	(1,028,878)
Total Accumulated Depreciation	<u>(\$11,628,537)</u>	<u>(\$521,514)</u>	<u>(\$112,356)</u>	<u>(\$12,037,695)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$11,580,023</u>	<u>(\$372,606)</u>	<u>\$0</u>	<u>\$11,207,417</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Support Services	\$ 87,324
Athletics	18,609
Unallocated	<u>415,581</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 521,514</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, and property and casualty insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2008 were \$76,140 and the School District received a dividend refund of \$16,103.

11) LONG-TERM LIABILITIES

A) DURANT RESOLUTION PACKAGE BONDS

Durand Area Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$270,227 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2008 was \$159,559.

B) 2006 BUILDING AND SITE BONDS

Durand Area Schools issued general obligation - limited tax bonds for the purpose of remodeling and equipping school facilities. The bonds are dated May 2, 2006 in the aggregate amount of \$13,570,000 and require annual payments of principal and interest. The interest rates range from 4.0% to 5.0% per annum. The principal balance at June 30, 2008 was \$13,335,000.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

11) LONG-TERM LIABILITIES (Continued)

C) 2005 REFUNDING BONDS

On March 29, 2005, the Durand Area Schools issued \$10,315,000 in General Obligation – Unlimited Tax Bonds with an average interest ranging from 3.00% to 4.40%. The District issued the bonds to advance refund \$10,710,000 of the outstanding 1997 Building & Site Bonds with a interest rate ranging from 5.250% to 5.375%. The net proceeds were deposited with an escrow agent and used to purchase U.S. Government Securities. These securities will provide for future debt service on the 2005 Refunding Bonds. As a result, the 1997 Refunding Bonds are considered defeased and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$9,740,000 at June 30, 2008.

D) SEVERANCE PACKAGE PAYABLE

Durand Area Schools has approved a severance package payable for 11 teachers. The package requires annual payments of \$12,500 per teacher for a period of four years. The balance at the end of June 30, 2008 was \$125,000.

E) ANNUAL PRINCIPAL REQUIREMENTS

The annual principal requirements for all debts outstanding as of June 30, 2008 are as follows:

	Bonds Payable	Severance Payable	Interest	Total
June 30, 2009	\$665,039	\$125,000	\$1,015,997	\$1,806,036
June 30, 2010	762,613	0	1,026,044	1,788,657
June 30, 2011	706,505	0	969,481	1,675,986
June 30, 2012	747,289	0	943,846	1,691,135
June 30, 2013	778,113	0	916,387	1,694,500
June 30, 2014-2018	4,310,000	0	4,065,075	8,375,075
June 30, 2019-2023	5,390,000	0	3,021,550	8,411,550
June 30, 2024-2028	6,000,000	0	1,770,438	7,770,438
June 30, 2029-2031	3,875,000	0	356,250	4,231,250
<u>TOTAL</u>	<u>\$23,234,559</u>	<u>\$125,000</u>	<u>\$14,085,068</u>	<u>\$37,444,627</u>

The payment dates of sick and vacation pay payable is undeterminable. The interest expenditures on long-term obligations for the year were \$1,029,662.

F) CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2008.

Governmental Activities:	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Amount Due in One Year
Energy & Durant Bonds	\$159,559	\$0	\$0	\$159,559	\$15,039
Building & Site Bonds	23,705,000	0	630,000	23,075,000	650,000
Severance Payable	250,000	0	125,000	125,000	125,000
Sick & Vacation Pay Payable	300,149	29,369	0	329,518	0
<u>TOTAL</u>	<u>\$24,414,708</u>	<u>\$29,369</u>	<u>\$755,000</u>	<u>\$23,689,077</u>	<u>\$790,039</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

12) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2008, consisted of the following:

TRANSFERS TO	TRANSFERS FROM	
		GENERAL FUND
	Athletics Fund	\$280,000
	Food Service Fund	60,000
	<u>TOTAL</u>	<u>\$340,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

13) FUND BALANCE DESIGNATIONS

Portions of fund equity are designated for future specific uses as follows:

Capital Outlay	\$45,000
Technology Outlay	30,000
Bus Replacement	<u>75,000</u>
<u>TOTAL</u>	<u>\$150,000</u>

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 17.74 percent for the period July 1, 2007 through September 30, 2007 and 16.72 percent for the period October 1, 2007 through June 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2008, 2007 and 2006 were \$1,447,519, \$1,453,448 and \$1,328,239, respectively.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

14) DEFINED BENEFIT PENSION PLAN (Continued)

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

16) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2008, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

17) SUBSEQUENT EVENT

The District borrowed \$4,000,000 on a State Aid Anticipated note on August 20, 2008 from the Michigan Municipal Bond Authority at 1.7% interest. The note is due August 20, 2009.

OTHER SUPPLEMENTAL
INFORMATION

DURAND AREA SCHOOLS - DURAND, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008

	Special Revenue Fund	Debt Retirement Fund	Sinking Capital Projects Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$70,967	\$874,712	\$412,747	\$1,358,426
Due From Other Governmental Units	4,250	0	0	4,250
Inventory	9,828	0	0	9,828
<u>TOTAL ASSETS</u>	<u>\$85,045</u>	<u>\$874,712</u>	<u>\$412,747</u>	<u>\$1,372,504</u>
<u>LIABILITIES</u>				
Accounts Payable	\$2,938	\$0	\$0	\$2,938
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	9,828	0	0	9,828
Debt Retirement	0	874,712	0	874,712
Capital Projects	0	0	412,747	412,747
Unreserved:				
Undesignated, Reported In:				
School Service Fund	72,279	0	0	72,279
Total Fund Balances	<u>\$82,107</u>	<u>\$874,712</u>	<u>\$412,747</u>	<u>\$1,369,566</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$85,045</u>	<u>\$874,712</u>	<u>\$412,747</u>	<u>\$1,372,504</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Fund	Debt Retirement Fund	Sinking Capital Projects Fund	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$349,619	\$1,566,213	\$7,441	\$1,923,273
State Sources	26,517	0	0	26,517
Federal Sources	272,502	0	0	272,502
Total Revenues	\$648,638	\$1,566,213	\$7,441	\$2,222,292
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from Other Funds	340,000	0	0	340,000
Total Revenues & Other Financing Sources (Uses)	\$988,638	\$1,566,213	\$7,441	\$2,562,292
<u>EXPENDITURES</u>				
Food Service	962,814	0	0	962,814
Debt Service	0	1,659,975	0	1,659,975
Capital Projects				
Building Improvements	0	0	12,400	12,400
Total Expenditures	\$962,814	\$1,659,975	\$12,400	\$2,635,189
Net Change in Fund Balance	\$25,824	(\$93,762)	(\$4,959)	(\$72,897)
<u>NET ASSETS - BEGINNING</u>	56,283	968,474	417,706	1,442,463
<u>NET ASSETS - ENDING</u>	\$82,107	\$874,712	\$412,747	\$1,369,566

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2008

	Food Service	Athletic Activities	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$44,482	\$26,485	\$70,967
Due From Other Governmental Units	4,250	0	4,250
Inventory	9,828	0	9,828
<u>TOTAL ASSETS</u>	<u>\$58,560</u>	<u>\$26,485</u>	<u>\$85,045</u>
<u>LIABILITIES</u>			
Accounts Payable	\$2,114	\$824	\$2,938
<u>FUND EQUITY</u>			
Fund Balance - Reserved for Inventory	9,828	0	9,828
Fund Balance - Unreserved and Undesignated	46,618	25,661	72,279
Total Fund Equity	\$56,446	\$25,661	\$82,107
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$58,560</u>	<u>\$26,485</u>	<u>\$85,045</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Food Service</u>	<u>Athletic Activities</u>	<u>Total</u>
<u>REVENUES</u>			
Local Sources			
Cafeteria Sales	\$277,688	\$0	\$277,688
Athletic Activities	0	66,481	66,481
Earnings on Investments and Deposits	37	10	47
Other Local Revenues	1,565	3,838	5,403
Total Local Sources	<u>\$279,290</u>	<u>\$70,329</u>	<u>\$349,619</u>
State Sources			
State Reimbursements	26,517	0	26,517
Federal Sources			
Federal Reimbursements	244,875	0	244,875
Federal Commodities	20,561	0	20,561
Headstart	7,066	0	7,066
Total Federal Sources	<u>\$272,502</u>	<u>\$0</u>	<u>\$272,502</u>
Total Revenues	<u>\$578,309</u>	<u>\$70,329</u>	<u>\$648,638</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	60,000	280,000	340,000
Total Revenues and Other Financing Sources	<u>\$638,309</u>	<u>\$350,329</u>	<u>\$988,638</u>
<u>EXPENDITURES</u>			
Salaries - Professional	46,226	40,884	87,110
Salaries - Non-Professional	175,211	164,597	339,808
Insurances	25,745	9,630	35,375
Fica, Retirement, Etc.	54,279	49,202	103,481
Purchased Services	4,380	24,204	28,584
Supplies and Materials	277,115	49,013	326,128
Capital Outlay	39,326	0	39,326
Other	2,127	875	3,002
Total Expenditures	<u>\$624,409</u>	<u>\$338,405</u>	<u>\$962,814</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>\$13,900</u>	<u>\$11,924</u>	<u>\$25,824</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$42,546</u>	<u>\$13,737</u>	<u>\$56,283</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$56,446</u>	<u>\$25,661</u>	<u>\$82,107</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
DEBT RETIREMENT FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 2008

	<u>1997</u> <u>Debt</u>	<u>1997</u> <u>Debt</u>	<u>2006</u> <u>Debt</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	<u>\$0</u>	<u>\$518,808</u>	<u>\$355,904</u>	<u>\$874,712</u>
<u>TOTAL ASSETS</u>	<u><u>\$0</u></u>	<u><u>\$518,808</u></u>	<u><u>\$355,904</u></u>	<u><u>\$874,712</u></u>
<u>FUND EQUITY</u>				
Reserved for Debt Retirement	<u><u>\$0</u></u>	<u><u>\$518,808</u></u>	<u><u>\$355,904</u></u>	<u><u>\$874,712</u></u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
DEBT RETIREMENT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008

	1997 Debt	2005 Debt	2006 Debt	Total After Interfund Eliminations
<u>REVENUES</u>				
<u>Local Sources</u>				
Property Tax Levy	\$0	\$774,330	\$756,503	\$1,530,833
Earnings on Investments and Deposits	0	23,795	11,585	35,380
Total Local Sources	\$0	\$798,125	\$768,088	1,566,213
<u>OTHER FINANCING SOURCES</u>				
Transfers from Other Debt Funds	0	640,882	0	0
Total Revenues and Other Financing Sources	\$0	\$1,439,007	\$768,088	\$1,566,213
<u>EXPENDITURES</u>				
Principal	0	495,000	135,000	630,000
Interest	0	425,086	604,576	1,029,662
Other	0	113	200	313
Total Expenditures	\$0	\$920,199	\$739,776	\$1,659,975
<u>OTHER FINANCING USES</u>				
Transfers to Other Debt Funds	640,882	0	0	0
Total Expenditures and Other Financing Uses	\$640,882	\$920,199	\$739,776	\$1,659,975
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</u>	<u>(\$640,882)</u>	<u>\$518,808</u>	<u>\$28,312</u>	<u>(\$93,762)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$640,882</u>	<u>\$0</u>	<u>\$327,592</u>	<u>\$968,474</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$0</u>	<u>\$518,808</u>	<u>\$355,904</u>	<u>\$874,712</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2008

REVENUES FROMLocal Sources

Property Tax Levy	\$1,095,667
Earnings on Investments and Deposits	71,469
Preschool	121,811
Tuition	26,278
Transportation	10,501
Medicaid School Based Services	80,315
Other Local Revenues	185,356
Total Revenues from Local Sources	<u>\$1,591,397</u>

State Sources

State Aid	12,177,679
Special Ed Headlee	328,744
Michigan Readiness	71,400
At Risk	253,542
Vocational Education	43,156
Durant	27,023
Total Revenues from State Sources	<u>\$12,901,544</u>

Federal Sources

Title I	333,090
Improving Teacher Quality	80,995
Technology Literacy	6,042
Safe and Drug Free Schools	650
Medicaid	10,286
Total Revenues from Federal Sources	<u>\$431,063</u>
Total Revenues	<u>\$14,924,004</u>

OTHER FINANCING SOURCES

Act 18 - County Special Education Tax	70,657
Transfers From Other Districts	192,995
Total Other Financing Sources	<u>\$263,652</u>

TOTAL REVENUES AND OTHER FINANCING SOURCES

\$15,187,656

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2008

INSTRUCTIONBASIC PROGRAMSWilbur Bills - Elementary

Salaries - Professional	\$358,952
Salaries - Non-Professional	37,276
Insurances	88,606
Fica, Retirement, Etc.	96,172
Purchased Services	5,036
Supplies and Materials	16,992
Other	1,160
Total Wilbur Bills - Elementary	<u>\$604,194</u>

Robert Kerr - Elementary

Salaries - Professional	537,978
Salaries - Non-Professional	35,138
Insurances	172,703
Fica, Retirement, Etc.	140,410
Other Benefits	100,000
Purchased Services	2,747
Supplies and Materials	13,329
Other	3,761
Total Robert Kerr - Elementary	<u>\$1,006,066</u>

Doyle Knight - Elementary

Salaries - Professional	610,630
Salaries - Non-Professional	30,882
Insurances	162,141
Fica, Retirement, Etc.	157,901
Purchased Services	3,930
Supplies and Materials	22,207
Other	1,160
Total Doyle Knight- Elementary	<u>\$988,851</u>

Bertha Neal - Elementary

Salaries - Professional	455,022
Salaries - Non-Professional	53,320
Insurances	143,599
Fica, Retirement, Etc.	120,342
Purchased Services	3,067
Supplies and Materials	20,868
Other	625
Total Bertha Neal - Elementary	<u>\$796,843</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2008

INSTRUCTION (Continued)

BASIC PROGRAMS (Continued)

Junior High

Salaries - Professional	\$1,157,044
Salaries - Non-Professional	42,120
Insurances	283,963
Fica, Retirement, Etc.	292,002
Other Benefits	12,500
Purchased Services	6,766
Supplies and Materials	31,198
Other	2,341
Total Junior High	<u>\$1,827,934</u>

High School

Salaries - Professional	1,208,691
Salaries - Non-Professional	41,148
Insurances	245,598
Fica, Retirement, Etc.	302,845
Other Benefits	12,500
Purchased Services	44,785
Supplies and Materials	57,365
Capital Outlay	12,599
Other	2,025
Total High School	<u>\$1,927,556</u>

Preschool

Salaries - Professional	79,770
Salaries - Non-Professional	42,796
Insurances	16,733
Fica, Retirement, Etc.	30,129
Purchased Services	518
Supplies and Materials	3,474
Total Preschool	<u>\$173,420</u>

Total Basic Programs \$7,324,864

ADDED NEEDS

Special Education

Salaries - Professional	650,455
Salaries - Non-Professional	183,719
Insurances	226,943
Fica, Retirement, Etc.	203,944
Purchased Services	2,590
Supplies and Materials	8,946
Total Special Education	<u>\$1,276,597</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2008

INSTRUCTION (Continued)

ADDED NEEDS (Continued)

Compensatory Education

Salaries - Professional	\$325,356
Salaries - Non-Professional	37,656
Insurances	43,359
Fica, Retirement, Etc.	88,911
Purchased Services	222,031
Supplies and Materials	73,554
Total Compensatory Education	<u>\$790,867</u>

Vocational Education

Salaries - Professional	205,067
Insurances	58,255
Fica, Retirement, Etc.	50,290
Purchased Services	3,657
Supplies and Materials	54,155
Total Vocational Education	<u>\$371,424</u>

Total Added Needs	<u>\$2,438,888</u>
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<u>Total Instruction</u>	<u>\$9,763,752</u>
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SUPPORT SERVICES

STUDENT SERVICES

Salaries - Professional	165,195
Salaries - Non-Professional	18,397
Insurances	40,356
Fica, Retirement, Etc.	45,589
Supplies and Materials	110
Total Student Services	<u>\$269,647</u>

INSTRUCTIONAL STAFF

Salaries - Professional	76,500
Salaries - Non-Professional	17,708
Insurances	16,022
Fica, Retirement, Etc.	21,269
Purchased Services	1,871
Supplies and Materials	10,246
Total Instructional Staff	<u>\$143,616</u>

GENERAL ADMINISTRATION

Salaries - Professional	144,956
Salaries - Non-Professional	22,304
Insurances	23,196
Fica, Retirement, Etc.	31,649
Purchased Services	64,374
Supplies and Materials	27,129
Other	6,636
Total General Administration	<u>\$320,244</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2008

SUPPORT SERVICES (Continued)

SCHOOL ADMINISTRATION

Salaries - Professional	\$522,969
Salaries - Non-Professional	245,709
Insurances	198,317
Fica, Retirement, Etc.	186,228
Purchased Services	103,609
Supplies and Materials	5,676
Total School Administration	<u>\$1,262,508</u>

BUSINESS OFFICE

Salaries - Professional	86,970
Salaries - Non-Professional	35,230
Insurances	30,927
Fica, Retirement, Etc.	63,148
Purchased Services	91,970
Other	153,604
Total Business Office	<u>\$461,849</u>

OPERATION AND MAINTENANCE OF PLANT

Salaries - Professional	32,527
Salaries - Non-Professional	340,459
Insurances	108,745
Fica, Retirement, Etc.	91,316
Purchased Services	295,062
Supplies and Materials	375,616
Total Operation and Maintenance of Plant	<u>\$1,243,725</u>

TRANSPORTATION

Salaries - Professional	32,527
Salaries - Non-Professional	277,888
Insurances	82,957
Fica, Retirement, Etc.	73,946
Purchased Services	47,440
Supplies and Materials	173,471
Other	563
Total Transportation	<u>\$688,792</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2008

SUPPORT SERVICES (Continued)

OTHER SUPPORT SERVICES

Salaries - Professional	\$73,265
Salaries - Non-Professional	10,616
Insurances	15,464
Fica, Retirement, Etc.	20,421
Purchased Services	31,543
Capital Outlay	2,752
Total School Administration	<u>\$154,061</u>

Total Support Services \$4,544,442

COMMUNITY SERVICES

Salaries - Professional	77,497
Insurances	14,948
Fica, Retirement, Etc.	18,598
Purchased Services	4,642
Supplies and Materials	4,688
Total Community Services	<u>\$120,373</u>

TOTAL EXPENDITURES \$14,428,567

OTHER FINANCING USES

Transfer to Other Funds	340,000
Transfer to Other Governmental Units	<u>113,689</u>

TOTAL OTHER FINANCING USES \$453,689

TOTAL EXPENDITURES AND OTHER
FINANCING USES

\$14,882,256

DURAND AREA SCHOOLS - DURAND, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2007	RECEIPTS	DISBURSEMENTS	JUNE 30, 2008
AD	\$4,422	\$14,995	\$12,999	\$6,418
Annual Yearbook	7,331	13,172	10,893	9,610
Archery	391	0	16	375
Art Club	1,719	2,099	2,273	1,545
Band	31	0	270	(239)
Baseball	3,215	3,186	3,296	3,105
Baseball - MS	0	3,888	3,848	40
Basketball Club	617	4,334	4,677	274
Book Deposit Fees	9,962	0	2,500	7,462
Book Fines	0	35	0	35
Bowling Club	34	0	0	34
BPA	0	344	0	344
Cheerleading	0	7,369	6,721	648
Class of 2002	1,298	0	1,298	0
Class of 2003	1,827	0	0	1,827
Class of 2004	393	0	0	393
Class of 2005	1,161	0	1,161	0
Class of 2006	2,130	0	2,130	0
Class of 2007	5,576	0	2,962	2,614
Class of 2008	3,521	2,151	4,705	967
Class of 2009	2,261	18,284	14,597	5,948
Class of 2010	1,130	2,229	2,058	1,301
Class of 2011	0	2,253	1,761	492
Counseling	1,337	2,552	1,573	2,316
Drama Club	1,051	703	776	978
Education Program - A	14,107	11,806	14,043	11,870
English Department	103	0	0	103
F.F.A.	5,224	16,679	15,253	6,650
FCCLA	347	4,925	4,673	599
Flower Fund - HS	135	250	385	0
Football Club	3,858	4,471	6,312	2,017
Girls Basketball - HS	1,851	2,139	2,953	1,037
Golf Team	307	324	332	299
Gym Locks	144	54	0	198
Mat Club	0	550	475	75
Math	42	0	0	42
Media Center	349	4,338	2,028	2,659
National Honor Society	700	1,106	1,267	539
Poms	218	0	168	50
Road Test	4,438	11,468	13,260	2,646
Rocket Club	0	600	56	544
S.A.D.D.	235	0	135	100
S.P.E.D.	782	0	129	653
Sub-Total	\$82,247	\$136,304	\$141,983	\$76,568

DURAND AREA SCHOOLS - DURAND, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2007	RECEIPTS	DISBURSEMENTS	JUNE 30, 2008
School Celebration	\$428	\$0	\$341	\$87
Science	43	1,520	1,174	389
Ski Club	1,573	756	789	1,540
Soccer - Boys	1,570	20	1,581	9
Soccer - Girls	593	0	481	112
Social Studies	34	0	28	6
Softball Club	98	1,523	1,507	114
Spanish Club	321	0	0	321
Student Government	2,129	2,994	2,440	2,683
Tennis	(332)	1,373	1,247	(206)
Textbook Fines	613	876	15	1,474
Tirtha Scholarship	549	501	500	550
Track - Boys	78	1,501	1,537	42
Volleyball	(63)	2,602	2,778	(239)
Youth B-Ball	1,101	1,397	2,205	293
<u>TOTALS</u>	<u>\$90,982</u>	<u>\$151,367</u>	<u>\$158,606</u>	<u>\$83,743</u>

DURAND AREA SCHOOL - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008

<u>HARVEY FOX SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2007</u>	\$21,885
<u>REVENUE</u>	
Interest	59
<u>EXPENDITURES</u>	
Scholarship Awards	500
<u>BALANCE - JUNE 30, 2008</u>	<u>\$21,444</u>
<u>ROBERT McALPINE SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2007</u>	\$11,187
<u>REVENUE</u>	
Interest	26
<u>EXPENDITURES</u>	
Service Charges	20
Scholarship Awards	1,125
Total Expenditures	\$1,145
<u>BALANCE - JUNE 30, 2008</u>	<u>\$10,068</u>
<u>MR. AND MRS. SUMMERHAYS SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2007</u>	\$3,035
<u>REVENUE</u>	
Interest	6
<u>BALANCE - JUNE 30, 2008</u>	<u>\$3,041</u>
<u>RAYMOND McLAUGHLIN MEMORIAL SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2007</u>	\$46,681
<u>REVENUE</u>	
Interest	122
<u>EXPENDITURES</u>	
Scholarships	2,710
<u>BALANCE - JUNE 30, 2008</u>	<u>\$44,093</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>KENNETH LEE ACKERMAN SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2007</u>		\$1,964
<u>REVENUE</u>		
Interest		4
<u>BALANCE - JUNE 30, 2008</u>		<u>\$1,968</u>
	<u>COURTNEY DEISLER FUND</u>	
<u>BALANCE - JULY 1, 2007</u>		\$7,942
<u>REVENUE</u>		
Interest		18
<u>BALANCE - JUNE 30, 2008</u>		<u>\$7,960</u>
	<u>OPTIMIST SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2007</u>		\$9,429
<u>REVENUE</u>		
Interest		22
<u>BALANCE - JUNE 30, 2008</u>		<u>\$9,451</u>
	<u>DARE FOR DURAND AREA SCHOOLS</u>	
<u>BALANCE - JULY 1, 2007</u>		\$12,287
<u>REVENUE</u>		
Interest		28
<u>BALANCE - JUNE 30, 2008</u>		<u>\$12,315</u>
	<u>NEAL SISTERS</u>	
<u>BALANCE - JULY 1, 2007</u>		\$9,751
<u>REVENUE</u>		
Donations		6,000
Interest		22
Total Revenue		<u>\$6,022</u>
<u>EXPENDITURES</u>		
Scholarship Awards		<u>5,624</u>
<u>BALANCE - JUNE 30, 2008</u>		<u>\$10,149</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008

<u>SEDLOCK</u>	
<u>BALANCE - JULY 1, 2007</u>	\$2,686
<u>REVENUE</u>	
Interest	<u>6</u>
<u>BALANCE - JUNE 30, 2008</u>	<u>\$2,692</u>
<u>JOHN A RICHARD MEMORIAL FUND</u>	
<u>BALANCE - JULY 1, 2007</u>	\$12,415
<u>REVENUE</u>	
Interest	<u>29</u>
<u>BALANCE - JUNE 30, 2008</u>	<u>\$12,444</u>
<u>WALDIE BRUNO SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2007</u>	\$10,367
<u>REVENUE</u>	
Donations	
Interest	<u>432</u>
Total Revenue	<u>\$432</u>
<u>BALANCE - JUNE 30, 2008</u>	<u>\$10,799</u>
<u>ALL SCHOLARSHIP FUNDS</u>	
<u>BALANCE - JUNE 30, 2008</u>	<u>\$146,424</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2008

2005 REFUNDING BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2008-2009	\$510,000	3.000%	\$206,092	\$206,092	\$922,184
2009-2010	530,000	3.500%	198,442	198,442	926,884
2010-2011	550,000	3.500%	189,167	189,168	928,335
2011-2012	570,000	3.550%	179,543	179,542	929,085
2012-2013	595,000	5.000%	169,425	169,425	933,850
2013-2014	615,000	4.000%	154,550	154,550	924,100
2014-2015	640,000	4.000%	142,250	142,250	924,500
2015-2016	655,000	4.000%	129,450	129,450	913,900
2016-2017	680,000	4.000%	116,350	116,350	912,700
2017-2018	695,000	5.000%	102,750	102,750	900,500
2018-2019	715,000	5.000%	85,375	85,375	885,750
2019-2020	735,000	5.000%	67,500	67,500	870,000
2020-2021	750,000	4.300%	49,125	49,125	848,250
2021-2022	750,000	4.400%	33,000	33,000	816,000
2022-2023	750,000	4.400%	16,500	16,500	783,000
<u>TOTAL</u>	<u>\$9,740,000</u>		<u>\$1,839,519</u>	<u>\$1,839,519</u>	<u>\$13,419,038</u>

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$270,227

1998 DURANT RESOLUTION PACKAGE BONDS

<u>PAYMENT DATE - MAY 15TH</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL</u>
				<u>FISCAL YEAR REQUIREMENTS</u>
2009	\$15,039	4.761353%	\$3,938	\$18,977
2010	92,613	4.761353%	34,885	127,498
2011	16,505	4.761353%	2,471	18,976
2012	17,289	4.761353%	1,686	18,975
2013	18,113	4.761353%	862	18,975
<u>TOTAL</u>	<u>\$159,559</u>		<u>\$43,842</u>	<u>\$203,401</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2008

DATE OF ISSUE - May 2, 2006

Original amount of issue - \$13,570,000

2006 SCHOOL BUILDING AND SITE BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2008-2009	\$140,000	4.000%	\$299,938	\$299,937	\$739,875
2009-2010	140,000	4.000%	297,138	297,137	734,275
2010-2011	140,000	4.000%	294,337	294,338	728,675
2011-2012	160,000	4.000%	291,538	291,537	743,075
2012-2013	165,000	4.000%	288,337	288,338	741,675
2013-2014	180,000	4.000%	285,038	285,037	750,075
2014-2015	185,000	4.000%	281,438	281,437	747,875
2015-2016	205,000	4.000%	277,737	277,738	760,475
2016-2017	215,000	4.000%	273,638	273,637	762,275
2017-2018	240,000	4.125%	269,337	269,338	778,675
2018-2019	265,000	4.125%	264,388	264,387	793,775
2019-2020	295,000	4.250%	258,922	258,922	812,844
2020-2021	330,000	4.250%	252,653	252,653	835,306
2021-2022	375,000	4.250%	245,641	245,640	866,281
2022-2023	425,000	4.250%	237,672	237,672	900,344
2023-2024	1,150,000	4.250%	228,641	228,641	1,607,282
2024-2025	1,175,000	4.375%	204,203	204,203	1,583,406
2025-2026	1,200,000	4.375%	178,500	178,500	1,557,000
2026-2027	1,225,000	5.000%	152,250	152,250	1,529,500
2027-2028	1,250,000	5.000%	121,625	121,625	1,493,250
2028-2029	1,275,000	5.000%	90,375	90,375	1,455,750
2029-2030	1,300,000	4.500%	58,500	58,500	1,417,000
2030-2031	1,300,000	4.500%	29,250	29,250	1,358,500
<u>TOTAL</u>	<u>\$13,335,000</u>		<u>\$5,181,096</u>	<u>\$5,181,092</u>	<u>\$23,697,188</u>

DURAND AREA SCHOOLS
DURAND, MICHIGAN
FEDERAL AWARDS
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

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Lewis & Knopf, CPA's, P.C.

Serving You with Trust and Integrity

September 8, 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Durand Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools, as of and for the year ended June 30, 2008, which collectively comprise the Durand Area Schools' basic financial statements and have issued our report thereon dated September 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Durand Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Durand Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Durand Area Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Durand Area Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Durand Area Schools' financial statements that is more than inconsequential will not be prevented or detected by the Durand Area Schools' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Durand Area Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Durand Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Durand Area Schools
Page 2
September 8, 2008

This report is intended solely for the information and use of management, the finance committee, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf P.C.
LEWIS & KNOPE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf CPAs, PC

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September 8, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education of
Durand Area Schools

Compliance

We have audited the compliance of Durand Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Durand Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Durand Area Schools' management. Our responsibility is to express an opinion on Durand Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Durand Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Durand Area Schools' compliance with those requirements.

In our opinion, Durand Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Durand Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Durand Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Durand Area Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.



Durand Area Schools
Page 2
September 8, 2008

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools, as of and for the year ended June 30, 2008, and have issued our report thereon dated September 8, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Durand Area Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis + Knope P.C.
LEWIS & KNOPE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Education Agencies	84.010		
ESEA I - Regular (07-08)		81530-0708	\$331,113
ESEA I - Regular (06-07)		71530-0607	343,999
Total Title I Grants to Local Education Agencies			<u>\$675,112</u>
Innovative Education Program Strategies	84.298		
Title V (06-07)		70250-0607	390
Title V (07-08)		80250-0708	375
Total Innovative Education Program Strategies			<u>\$765</u>
Technology Literacy Challenge	84.318		
Title IID (07-08)		84290-0708	6,042
Title IID (06-07)		74290-0607	3,511
Title IID (05-06)		61290-0506	6,381
Total Technology Literacy Challenge			<u>\$15,934</u>
Improving Teacher Quality	84.367		
Title IIA (05-06)		60520-0506	125,606
Title IIA (06-07)		70520-0607	125,188
Title IIA (07-08)		80520-0708	126,079
Total Improving Teacher Quality			<u>\$376,873</u>
Total Passed Through Michigan Department of Education			<u>\$1,068,684</u>
Passed Through Genesee Intermediate School District			
Emergency Response Plans (05-06)	84.184E	Q184E050156	1,000
Safe & Drug free Schools & Communities (06-07)	84.186	72860-0607	2,196
Total Passed Through Genesee Intermediate School District			<u>\$3,196</u>
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			<u>\$1,071,880</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	20,138
Bonus Commodities		N/A	423
Total Commodities			<u>\$20,561</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2007	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2008
\$0	\$0	\$331,113	\$0	\$331,113	\$0
23,839	342,022	1,977	0	25,816	0
<u>\$23,839</u>	<u>\$342,022</u>	<u>\$333,090</u>	<u>\$0</u>	<u>\$356,929</u>	<u>\$0</u>
0	0	0	0	0	0
0	0	0	0	0	0
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
0	0	6,042	0	6,042	0
581	581	0	0	581	0
2,922	6,381	0	0	2,922	0
<u>\$3,503</u>	<u>\$6,962</u>	<u>\$6,042</u>	<u>\$0</u>	<u>\$9,545</u>	<u>\$0</u>
29,196	125,606	0	0	29,196	0
58,945	58,945	0	0	58,945	0
0	0	80,995	0	80,995	0
<u>\$88,141</u>	<u>\$184,551</u>	<u>\$80,995</u>	<u>\$0</u>	<u>\$169,136</u>	<u>\$0</u>
<u>\$115,483</u>	<u>\$533,535</u>	<u>\$420,127</u>	<u>\$0</u>	<u>\$535,610</u>	<u>\$0</u>
0	0	650	0	650	0
2,196	2,196	0	0	2,196	0
<u>\$2,196</u>	<u>\$2,196</u>	<u>\$650</u>	<u>\$0</u>	<u>\$2,846</u>	<u>\$0</u>
\$117,679	\$535,731	\$420,777	\$0	\$538,456	\$0
0	0	20,138	0	20,138	0
0	0	423	0	423	0
<u>\$0</u>	<u>\$0</u>	<u>\$20,561</u>	<u>\$0</u>	<u>\$20,561</u>	<u>\$0</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF AGRICULTURE (Continued)</u>			
Passed Through Michigan Department of Education: (Continued)			
School Breakfast Program	10.553	N/A	\$46,066
National School Lunch Program	10.555	N/A	<u>198,809</u>
<u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			\$265,436
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Capital Area Community Services			
Head Start	93.600	N/A	7,066
Passed Through Shiawassee RESD			
Medical Assistance Program Title XIX			
Medicaid Outreach	93.778	N/A	<u>10,286</u>
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			<u>\$17,352</u>
<u>TOTAL FEDERAL AWARDS</u>			<u><u>\$1,354,668</u></u>

<u>ACCRUED (DEFERRED) REVENUE JULY 1, 2007</u>	<u>PRIOR YEAR EXPENDITURES</u>	<u>CURRENT YEAR EXPENDITURES</u>	<u>ADJUSTMENTS PRIOR YEARS</u>	<u>CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED</u>	<u>ACCRUED (DEFERRED) REVENUE JUNE 30, 2008</u>
\$0	\$0	\$46,066	\$0	\$46,066	\$0
<u>0</u>	<u>0</u>	<u>198,809</u>	<u>0</u>	<u>198,809</u>	<u>0</u>
\$0	\$0	\$265,436	\$0	\$265,436	\$0
0	0	7,066	0	7,066	0
<u>0</u>	<u>0</u>	<u>10,286</u>	<u>0</u>	<u>10,286</u>	<u>0</u>
<u>\$0</u>	<u>\$0</u>	<u>\$17,352</u>	<u>\$0</u>	<u>\$17,352</u>	<u>\$0</u>
<u>\$117,679</u>	<u>\$535,731</u>	<u>\$703,565</u>	<u>\$0</u>	<u>\$821,244</u>	<u>\$0</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

\$703,565

FEDERAL REVENUE RECOGNIZED PER THE GENERAL
PURPOSE FINANCIAL STATEMENTS PURPOSE

General Fund

\$431,063

School Service Fund

272,502

TOTAL

\$703,565

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 8 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF FORM R 7120 "GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Current Payments Per the Grant Section Auditor's Report (Form R 7120)		\$244,875
Cash Management System		<u>535,610</u>
Total		\$780,485
 <u>Add:</u> Grants Passed Through Genesee Intermediate School District:		
Emergency Response Plans (CFDA 84.184E)	\$650	
Safe & Drug Free Schools & Communities (CFDA 84.186)	<u>2,196</u>	
Total Grants Passed Through Genesee Intermediate School District:		2,846
 Grants Passed Through Shiawassee RESD		
Medicaid Outreach (CFDA 93.778)		10,286
 Entitlement and Bonus Commodities		
		20,561
 Head Start (CFDA 93.600)		
		<u>7,066</u>
 <u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES</u> <u>OF FEDERAL AWARDS</u>		 <u><u>\$821,244</u></u>

DURAND AREA SCHOOLS- DURAND, MICHIGAN
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Is a “going concern” explanatory paragraph included in the audit report? ☐ Yes ☒ No
- Is a significant deficiency disclosed? ☐ Yes ☒ No
- Is any Significant deficiency reported as a material weaknesses? ☐ Yes ☒ None reported
- Is a material noncompliance disclosed? ☐ Yes ☒ No

Federal Awards

- Dollar threshold use to distinguish between type A and type B programs: \$ 300,000.00
- Did the auditee qualify as a low-risk auditee? ☐ Yes ☒ No
- Is a significant deficiency disclosed for any major program? ☐ Yes ☒ No
- Is any significant deficiency reported for any major program as a material weakness? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)
84.010
84.367

Name of Federal Program or Cluster
Title I Grants to Local Agencies
Improving Teacher Quality

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no current year findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no current year findings.

STATUS OF PRIOR YEAR FINDINGS

There were no prior year findings.